

Office of the State Auditor
Division of State Audit

North Dakota Barley Council
Fargo, North Dakota

Audit Report for the
Two-Year Period Ended June 30, 2006
Client Code 62600

Robert R. Peterson
State Auditor



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September 25, 2006

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Steven Edwardson, Executive Administrator
North Dakota Barley Council

Transmitted herewith is the special-purpose financial statement audit of the North Dakota Barley Council for the two-year period ended June 30, 2006. The Office of the State Auditor has the statutory authority to determine the contents of state agency audit reports. The Office of the State Auditor worked with the Legislative Council and the Office of Management and Budget (OMB) to develop the contents of this audit report. The primary goal was to provide the Legislative Audit and Fiscal Review Committee, other legislators, and state officials with the information they need to monitor the fiscal affairs of state agencies.

The review of the North Dakota Barley Council's internal control and compliance with laws and regulations governing the agency disclosed one reportable condition concerning coding of refunds, see finding 06-1.

The Office of the State Auditor would like to thank the North Dakota Barley Council for the cooperation we received during our audit.

Sincerely,

Robert R. Peterson
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Steven Edwardson, Executive Administrator
North Dakota Barley Council

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Barley Council for the two-year periods ended June 30, 2006 and 2004. This financial statement is the responsibility of the management of the North Dakota Barley Council. Our responsibility is to express an opinion on this financial statement based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The accompanying special-purpose financial statement was prepared to provide state decision makers, including the Legislative Audit and Fiscal Review Committee, with a comprehensive overview of the North Dakota Barley Council's operations. The revenues and expenditures are reported as discussed in the first note to the financial statements. This special-purpose financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Barley Council for the two-year periods ended June 30, 2006 and 2004, in conformity with the basis of accounting described in the first note to the financial statements.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statement taken as a whole. The statement subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statement of the North Dakota Barley Council. The statement subsequent to the notes has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and in

our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006 on our consideration of the North Dakota Barley Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Barley Council and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson
State Auditor

September 25, 2006

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
For The Two-Year Periods Ended June 30, 2006 and 2004

	Fiscal Years	
	2006-2005	2004-2003
REVENUES:		
Barley Assessments (net of refunds of \$60,116 and \$68,705)	\$ 1,273,132	\$ 1,492,192
Interest on Investments	40,823	15,860
Miscellaneous Revenue	449	9,637
Total Revenues	<u>\$ 1,314,404</u>	<u>\$ 1,517,689</u>
EXPENDITURES:		
Salaries and Benefits	\$ 344,401	\$ 407,869
Operating Expenses	826,231	849,973
Equipment	13,400	5,220
Grant Expenditures	281,842	165,998
Total Expenditures	<u>\$ 1,465,874</u>	<u>\$ 1,429,060</u>
Revenue Over/(Under) Expenditures	<u>\$ (151,470)</u>	<u>\$ 88,629</u>

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENT
For the Two-Year Period Ended June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The responsibility for this financial statement, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Barley Council. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Barley Council includes all funds, programs, and activities over which it is financially accountable. The North Dakota Barley Council does not have any component units as defined by the Governmental Accounting Standards Board. The North Dakota Barley Council is part of the state of North Dakota as a reporting entity.

The North Dakota Barley Council was created by the 1983 Legislature through passage of the "Barley Industry Promotion Act" pursuant to Chapter 4-10.4 of the North Dakota Century Code (NDCC). It being the intended purpose that the production, development, marketing, and promotion of barley in North Dakota are important to the general welfare of the people of North Dakota. The accomplishment of which required the establishment of the North Dakota Barley Council for the purposes and with the objectives of contributing to the stabilization and improvement of the agricultural economy of this state.

The Council is composed of one participating grower elected from each of the five districts established in Chapter 4-10.4 of the NDCC. North Dakota Century Code section 4-10.4-08 states a tax at the rate of ten mills per bushel must be levied and imposed on all barley grown in the state, delivered into the state, or sold to a first purchaser in the state. Every first purchaser of barley shall collect the tax imposed by the section by charging and collecting from the seller the tax at the rate of ten mills per bushel by deducting the tax from the purchase price of all barley subject to the tax and purchased by the first purchaser. Every first purchaser shall keep as a part of its permanent records a record of all purchases, sales, and shipments of barley, which may be examined by the North Dakota Barley Council at all reasonable times. Every first purchaser shall report to the Council by the thirtieth day of each calendar quarter stating the quantity of barley received, sold, or shipped by it. The remittance of the tax to the Council must accompany the report. All moneys levied and collected by the Council are to be deposited in an account designated "Barley Fund" at the State Treasurer and used for carrying out Council objectives. The administrative duties of the Council and the record-keeping requirements of the "Barley Fund" are the responsibility of the Council.

B. Reporting Structure

The financial statement includes all activities of the reporting entity as defined above. These activities are funded from fund 231, the Barley fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity. For comparability with current presentation, certain prior two-year period expenditures were consolidated in the Detailed Comparative Statement of Revenues and Expenditures.

C. Basis of Accounting

Revenues and expenditures on the statement of revenues and expenditures are principally reported on the modified accrual basis of accounting that is generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). "Measurable" means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 30 days after fiscal year-end. Expenditures are recorded when goods or services are received. Exceptions include principal and interest expenditures which are recorded when due; compensated absences that are recorded when paid, and; claims and judgments.

There can be differences between revenues and expenditures reported on the state's accounting system and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Examples of these differences include the following:

1. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
2. Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply-back period.
3. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
4. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues and expenditures would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures.

For this report revenues and expenditures are reported on a departmental basis to give an overview of the North Dakota Barley Council's operations. All revenues and expenditures are included.

Note 2 - Related Parties

The North Dakota Barley Council has a close working relationship with the North Dakota State University (NDSU), the National Barley Growers Association (NBGA), the US Feed Grains Council (USFGC), and the North Dakota Grain Growers Association (NDGGA). For fiscal years 2006 and 2005, the Barley Council paid NDSU \$139,110 and \$75,452; NBGA \$37,240 and \$39,054; USFGC \$96,608 and \$99,681; and the NDGGA \$43,571 and \$64,035, respectively.

Note 3 – Other Significant Items

The North Dakota Barley Council's deposits and investments at June 30, 2006 were \$1,128,585. This represents approximately 18 months of expenditures.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

- 1. What type of opinion was issued on the financial statements?*

Unqualified.

- 2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

- 3. Was internal control adequate and functioning effectively?*

No. Refunds were coded to a revenue account, rather than to their own account, see finding 06-1 of this report for additional information.

- 4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

- 5. Has action been taken on findings and recommendations included in prior audit reports?*

Yes.

- 6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Barley Council's financial statement does not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

None.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance is a high-risk information technology system critical to the North Dakota Barley Council.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SPECIAL-PURPOSE
FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Steven Edwardson, Executive Administrator
North Dakota Barley Council

We have audited the special-purpose financial statement of the governmental activities and the major fund of the North Dakota Barley Council as of and for the two-year period ended June 30, 2006, and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Barley Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the North Dakota Barley Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings, recommendations and agency's response.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Barley Council's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Barley Council and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson
State Auditor

September 25, 2006

FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSE
For The Two-Year Period Ended June 30, 2006

REFUND CODING (Finding 06-1)

Barley tax refunds to producers of \$60,116 were coded as reductions to the barley tax revenue account, rather than to a separate refund account. This occurred because a separate barley tax refund account was not set up on the chart of accounts.

The Guide to Implementation of GASB Statement 34 on Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, question and answer #132 states: "Can revenue items, such as fines and forfeitures, licenses and permits, and intergovernmental revenues (for specific programs), be netted against expenses in the statement of activities? No. Program revenues should not be netted against expenses-program expenses should be reported at gross."

RECOMMENDATION:

We recommend that a refund account be established and used to account for barley tax refunds.

AGENCY'S RESPONSE:

Agree. We will work with OMB to establish a separate account to record barley tax refunds.

DETAILED COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

Departmental Information**For The Two-Year Periods Ended June 30, 2006 and 2004**

	Fiscal Years	
	2006-2005	2004-2003
REVENUES:		
Barley Assessments (net of refunds of \$60,116 and \$68,705)	\$ 1,273,132	\$ 1,492,192
Interest on Investments	40,823	15,860
Miscellaneous Revenue	449	9,637
Total Revenues	\$ 1,314,404	\$ 1,517,689
EXPENDITURES:		
Salaries and Benefits	\$ 344,401	\$ 407,869
IT - Data Processing	2,399	3,876
IT - Telephone/Communications	10,743	11,235
Travel	184,572	180,372
IT - Software/Supplies	265	3,537
Postage	17,646	25,024
IT -Contractual Services and Repairs	5,736	5,215
Lease/Rent-Equipment and Other	2,499	2,856
Lease/Rent-Building/Land	73,593	72,206
Professional Development	446,837	412,710
Operating Fees and Services	30,159	42,380
Repairs	2,814	2,262
Fees - Professional Services	7,209	31,925
Insurance	2,668	2,675
Office Supplies	4,350	6,897
Printing	6,095	17,152
Professional Supplies and Materials	8,010	6,788
Building/Grounds/Vehicle Supply	5,310	5,300
Miscellaneous Supplies	10,574	17,563
Office Equipment and Furniture under \$5,000	2,856	2,378
IT - Equipment under \$5,000	1,896	2,842
Grants, Benefits, and Claims	281,842	165,998
Equipment over \$5,000	13,400	
Total Expenditures	\$ 1,465,874	\$ 1,429,060
Revenue Over/(Under) Expenditures	\$ (151,470)	\$ 88,629